Answers to the Main Questions for the Second Quarter of Fiscal Year 2019

Q: Would you provide a summary of the total results for the second quarter of FY2019?

A: The total revenue as of the second quarter of FY2019 decreased by 2% year on year to 480.6 billion yen as the JPY exchange rate strengthened in comparison with the previous year, adjusted operating income decreased by 16% year on year to 45.0 billion yen, and the profitability was 9.4%. Revenue from the sales of new mining machinery increased by 18% while overall mining revenue increased by 6% year on year to 81 billion yen.

On the financial side, inventories increased by 3.5 billion yen compared to the previous fiscal year-end to 328.3 billion yen. When viewed in terms of the number of days of inventory on hand, trade receivables were reduced by 7 days from the previous fiscal year-end. However, inventories increased by 2 days to 117 days, and the number of days of net working capital on hand increased by 8 days to 163 days from the previous fiscal year-end. As a result, the interest-bearing debt increased by 36.2 billion yen from the previous fiscal year-end, and total equity decreased by 12.3 billion yen due to foreign operations* translation adjustments caused primarily by the impact of the appreciation of the JPY.

Regarding cash flows, operating cash flow improved by 37.0 billion yen year on year, and inventory cash flow also became positive during the three months of the second quarter. However, there was still an over-expenditure of 9.7 billion yen for the second quarter six months, expenditures for investment cash flows also increased, and free cash flows reached a total outflow of 29.2 billion yen.

*Foreign operations: Subsidiaries, affiliated companies, joint ventures, and branches whose operations are based in countries other than those where we are located, or on currencies other than the currencies of the countries where we are located (Japan).

Q: Would you provide a summary of the outlook for FY2019?

A: Regarding the market outlook for FY2019, the global demand for hydraulic excavators will range decreasing from 3% to 8% year on year, expected to decrease by 5,000 units from the July forecast based on the situation during the second quarter. On the other hand, the demand for mining machinery is expected to be at about the same level as the previous fiscal year as projected in July. The business forecast remains unchanged from that announced at the beginning of the fiscal year with revenue at 950.0 billion yen (8% decrease year on year), adjusted operating income at 86.0 billion yen (26% decrease year on year), and the net income attributable to owners of the parent at 48.0 billion yen (30% decrease year on year). Due to the fact that the Company's ratio of foreign operations is high and payments are made in the currencies of various regions, we are taking the lower limit for the expected range of fluctuation for each currency and assuming the foreign exchange rate to be ¥100 to one US dollar and ¥110 to one Euro. However, the rate is being revised to ¥14.5 from ¥15.0 for one Yuan and to ¥70 from ¥77 for one Australian dollar.

As we are now in the final year of the "Connect Together 2019" medium-term management plan, we are promoting a deepening of the value chain, an increase in management efficiency, advanced technology development, and IoT-related research and development. To carry out these policies, we will advance the necessary investments and indirect cost expenditures while balancing them with the revenue growth rate.

Q: What do you expect the demand for construction machinery to be, in detail?

A: During the second quarter of FY2019, the global demand for hydraulic excavators, the Company's major products, decreased year on year in China, Asia and Oceania, the Middle East, and Europe while it increased in Japan, North America, and Russia-CIS. Taking into account the decrease in China, Asia and Oceania, Europe, and other markets with unclear prospects, the expected demand as of July 2019 is being revised downward by 5,000 units for an expected overall global decrease of 8% to 217,000 units in the outlook for the entire 2019 fiscal year.

Q: What do you expect the demand and orders for mining machinery to be like?

A: The FY2019 demand for over-100 ton class ultra-large hydraulic excavators and over-150 ton class mining dump trucks, which we categorize as mining machinery, is expected to remain at about the same level as that of the previous year. In particular, we are continuing to receive sizable orders for ultra-large hydraulic excavators and dump trucks for major mines, which we expect to remain steady in FY2019. Furthermore, in terms of the mining-related sales that were forecast for FY2019, we have already received orders for approximately 60% for hydraulic excavators and 90% for dump trucks, as of the end of the second quarter.